

REGIONAL OFFICE FOR CENTRAL AMERICA AND PANAMA

File ROCAP CDSS (RDSS)

Regional Development Strategy Statement

December 18, 1987

III Strategy for FY 1989 - FY 1993

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LIST OF ACRONYMS

CABEI	Central American Bank for Economic Integration
CAOM	Central American Common Market
CAPEL	Interamerican Center for Electoral Assistance and Promotion
CATIE	Tropical Agricultural Research and Training Center
EAP	Panamerican Agricultural School (also called Zamorano)
ECAG	Central American Livestock School
ESNACIFOR	National School of Forestry Science
FEDEPRICAP	Private Enterprise Federation of Central America and Panama
FHIA	Honduran Agricultural Research Foundation
ICAITI	Central American Institute for Industrial Technology
IICA	Inter-American Institute for Agricultural Cooperation
INCAE	Central American Institute for Business Administration
INCAP	Nutrition Institute for Central America and Panama
LAAD	Latin American Agribusiness Development Corporation
NBOCA	National Bipartisan Commission on Central America (also called the Kissinger Commission)
RTAC	Regional Technical Aids Center
SIECA	Permanent Secretariat of the General Treaty for Central American Economic Integration

I OVERVIEW OF THE ENVIRONMENT FOR DEVELOPMENT

A. The Region and Regionalism

Central America comprises seven nations that occupy the isthmus connecting the North and South American continents. Five countries make up the core: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. They formed a brief political union following independence from Spain, and in 1960 formed an economic union, the Central American Common Market. Belize and Panama have not always been included in Central American political, economic, and technical cooperation, nor in the program planning of ROCAP. Nicaragua has been excluded from A.I.D. programming since 1981. This paper will focus on the four principal AID recipients--Costa Rica, El Salvador, Guatemala, and Honduras--but will include Belize, Panama, and Nicaragua as appropriate for a 5-year planning document.

The seven countries have a land area about the size of France (533,325 Km²) and a population of 25 million. Although Central America lies in tropical latitudes, over three-fourths of its area is mountainous or hilly with a temperate climate. The Coastal plains are tropical, narrow and dry on the Pacific side of the mountains and wide with heavy rainfall on the Atlantic side.

Small amounts of gold, silver, copper, zinc, oil and lead have been exported from the region, and additional mineral and energy resources are believed to exist. The region generally possesses an adequate network of trunk and secondary roads; a few antiquated railroads (geared principally to the banana trade); a basic, if inadequate structure of ports; airports that are adequate, though often strained at peak load periods and underequipped to support growing export trade. The value of this infrastructure for increasing exports is constrained by pricing policies and limited accessibility.

The population of Central America is both a key resource and a major problem. Having exploded from 8 million in 1950 to 25 million now, the population is expected to be 39 million by 2000. The density of population ranges from 580 per square mile in El Salvador to 88 in Honduras, a disparity which contributed to tensions underlying the 1969 "Football War". Ethnic and language diversity is extensive, with people of European, African, and Indian descent among a predominantly mixed race population. In spite of aggregate development gains during the past 30 years, 43% of the population in the four core countries is classified as critically poor, i.e., their total income is inadequate to purchase the basic food basket. Another 18% is considered barely able to satisfy basic needs. In Guatemala, El Salvador and Honduras, 40 to 60% of the children are considered undernourished. Population growth continues to slow development efforts, strain the resource base, and accentuate class and racial stratification.

Natural disasters and civil strife undermine development efforts. Major hurricanes and earthquakes have brought devastation to four countries in the last 15 years, wiping out infrastructure and dislocating tens of thousands of families. Strife has added to population displacements, and as history shows, it is the already poor who suffer the most when floods, quakes and wars strike.

The natural environment of soils, water, forests and other biological resources is fragile and deteriorating rapidly under the pressures of population growth, inequitable land distribution, inappropriate land use, increasing use of chemicals, and a growing problem of waste disposal.

The region's economies grew rapidly in the 1960s and early 1970s, sparked by favorable prices for principal exports, the protection and incentives of the Central American Common Market, and relative political stability. The regional economy began to falter in the mid-1970s, and by 1980, under the combined pressures of high oil import prices, declining prices of major export commodities, increasing political instability and capital flight, the region fell into crisis. Real per capita income declined an average of 4.3% per year from 1980 to 1983, and remained negative through 1987. Since 1982-83, the deterioration has been arrested by massive U.S. foreign aid infusions, policy, political and social reforms, lower oil prices, and modest recovery of exports. Protected inefficient industry, stagnant agricultural productivity and production, and the slow repatriation of capital are continuing problems, while construction and service industries are showing strong growth in several countries.

Regionalism, based on the sensible view that five or six ministates can better solve their problems cooperatively than competitively, has a long history of advances and retreats in Central America. The political union formed in 1821 collapsed in 1839, and the CACM, which began to unravel in 1968, became nearly moribund by the early '80s. Yet the vision persists, and during 1986-87, with leadership primarily provided by Costa Rica and Guatemala, regional cooperation has revived in both rhetoric and actions. The most dramatic example is the Central American Peace Plan subscribed by the five Central American presidents at Esquipulas. This is buttressed by actions in other fields, including signing a treaty to establish a Central American Parliament, renewed interest in and selection of new leaders for ICAITI and

SIECA, improved performance in making quota payments to regional institutions, signing by El Salvador, Honduras, and Guatemala of an intercountry development pact called Trifinio, and continuing formal and informal communications among heads of state and cabinet ministers on a wide range of matters. The degree of regional cooperation is noteworthy during a period when the countries still face major national and bilateral problems.

B. Economic and Social Progress and Persistent Needs

The economies of Central America have been under severe economic pressure since the crises of the early 1980s. After years of growth, GNP declined an average of -1.7% each year during 1980-1983. Recovery is underway, stimulated partly by major U.S. assistance, but stagnant markets and low prices for traditional export crops, a massive decline in private investment, major trade imbalances and external debt burdens all inhibit improvement. Debt as a percentage of GDP is more than double what it was eight years ago, and debt service charges in relation to exports are four times larger. Furthermore, political and economic uncertainty arising from the civil strife compounded these problems by lowering investor confidence.

Consumer prices rose 25% in 1986 after having fluctuated yearly in the 5-15% range since 1978. The rate of increase was down to 14% in 1987. On the individual level, per capita economic growth (real GDP) averaged 5.7% annually in the Central America over the period 1960-1978. Since 1978 this performance has been much worse, and it deteriorated to a low in 1982 of -6%. Real GDP remained negative but at progressively lesser rates through 1987. Excluding Panama, the performance in 1988 is expected to become positive for the first time in a decade.

Data on income distribution from 1980 show that the poorest 20% of the population received 4% of income; the richest 20% received 57%. A more equitable sharing of benefits is revealed in primary school enrollment. Ratios of enrollment to the primary school-aged population reached 92% in 1986, up about 1 percentage point per year in recent years. The largest unserved population is the indigenous population of Guatemala.

Regional population growth leveled off at 2.7% per year--equivalent to a doubling of the population in 26 years. Despite the stability in growth, both birth and death rates declined substantially and each are 8-9 points lower than a generation ago. Preventable diseases are the most prevalent causes of mortality and morbidity. High levels of fertility, though declining, constrain improvements in health status.

C. Political Development and Peace

During the last four years, Central America has progressed in strengthening democratic institutions and processes and reducing the level of violence. Both are considered to be preconditions for increased economic development and human welfare, and thus are development goals for AID. El Salvador, Guatemala and Honduras have held open Presidential elections, while Belize and Costa Rica have continued their traditional constitutional electoral processes. Only in Panama has democratization suffered a setback, and Nicaragua continued to ignore the democratic process. Actions to protect human rights have improved in El Salvador and Guatemala. Positive changes in military attitudes about human rights have occurred, and the relationship of the military to the state has been the subject of important legislative changes. U.S. aid for democratization has grown in size and sophistication,

with democracy viewed as an evolutionary process involving a range of civic institutions, cultural attitudes and socio-political resources.

Centrally funded and bilateral A.I.D. programs are focussed on supporting open and efficient elections, strengthening the professional capabilities of legislators, expanding citizen participation and promoting the freedom and competency of the press. A.I.D. is also working to upgrade the competency and independence of the judiciary and investigative organs of government, so they can more effectively serve the people and protect human rights. Additionally, the Central America Peace Scholarship program through USAIDs and ROCAP has offered opportunities to over 4,000 Central Americans to improve their professional and skills training while observing the practice of democracy in the United States.

The continuation and strengthening of these programs to support democratically elected governments, democratic processes and civilian institutions are critical to success in achieving the goals of the CAI. The events to date represent a strong trend but are fragile and threatened by political violence and crime.

Progress towards peace in the region has also been encouraging. The Arias peace plan was signed and countries have made significant achievements toward compliance with its terms. The governments of El Salvador and Guatemala have initiated dialogues with insurgent groups. In Nicaragua, steps have been taken to liberalize the press and negotiate with insurgents. Nevertheless, the outlook for peace is not at all clear. For purposes of planning, ROCAP's assumptions are that hostilities in El Salvador and Guatemala will reduce, and that democratization in Nicaragua will be slow and

uneven. We expect that development efforts in the four democratic countries will be less affected by hostilities over the planning period than at present. If it becomes appropriate, ROCAP could quickly propose means by which Nicaragua could participate in regional programs.

D. Economic Policy Environment Improving

Massive U.S. assistance stemmed the serious economic decline of the mid-1980s. ESF transfers provided the leverage to open the policy dialogue in each country regarding issues such as exchange rates, fiscal deficits, tax reform, trade policy and export promotion, and private sector regulation and privatization.

The regional cooperation occurring in the political arena has not yet been extended to the economic arena, but these revived channels may provide new opportunities for economic policy dialogue. Changes are taking place. For example, the import-substitution, protectionist trade policies of the 1960s, are now widely recognized to have distorted resource allocation in the region and made Central American goods less-competitive outside the region.

The discouraging trends of most of the economic indicators are consistent with the reported attitude of caution on the part of investors and with the views that risks and uncertainties are high and the economies of the region are soft. There is general agreement that a reduction of hostilities as well as improvements in economic policies, are needed in order to reactivate private investment, trade, and business expansion. The USAIDs are supporting the economic reforms that are needed in their respective countries, but progress has been mixed. Financial structures are being stabilized, fiscal deficits are being reduced and some progress has been made on

privatization in each country. There has been less widespread acceptance of the need for tax reform and slower than expected movement toward market-determined exchange rates. In the major area of deregulation and trade policy, there has been slight progress. However, unless more extensive improvements are adopted, impacts on GNP will be modest at best. Export promotion of non-traditional products is receiving attention both within governments and USAIDs, even though it has limited potential for fueling a major revival of economic activity in the short run. Complementary efforts are needed to forge a regional strategy for economic policy reform and investment and trade revival, and to define the ways by which USAIDs, ROCAP, and other major donors can cooperate in promoting them.

E. Physical and Institutional Infrastructure

Two key foundations of any development process are the networks of roads, ports, energy sources, and irrigation that constitute the physical infrastructure, and the development institutions that design and administer projects, create and transfer technologies, and prepare people to be more productive.

In Central America and Panama, the transportation and energy systems have been well established, though they are in need of rehabilitation or expansion in some cases, and require improved maintenance and environmental management in order to protect past investments. While the road, port and airport systems are adequate for the current level of economic activity, there are shortfalls in ability to handle the changing mix of trade, and ineffective management of transportation and related services often frustrates the free flow of commerce within and outside the region. The energy (principally

electrical) network has been expanded, though most rural dwellers remain unserved, and the financial condition of nearly all of the systems is precarious, limiting the utilities' ability to maintain, repair, or expand them. In addition, soil and forest degradation are shortening the useful lives of major hydroelectric installations.

The public institutions that deliver health and education services have not recovered from the impacts of the economic decline of the 1980s. While hospitals and schools have been built, the basic health network and schools have suffered shortages of operating funds, essential supplies, equipment, and personnel. This reduces the quality and quantity of services provided, especially in new urban settlements and remote rural areas. Similarly affected are the national agriculture development agencies' capacity to develop and deliver new technologies to farmers, assess needs of the sector, properly allocate resources and establish sound policies.

The regional institutions with which ROCAP has historically worked are reexamining their roles and strategies, looking to respond to renewed interest by Central Americans in their programs, and to consolidate and broaden their sources of financing. CATIE, for example, has narrowed its program focus and is initiating a fund-raising campaign. ICAITI is moving to be more market oriented. CABEI is raising capital outside the region. FEDEPRICAP is bringing a common voice to the region's private sector. The Central American Parliament holds the promise for giving fresh life to regional cooperation and development.

F. ROCAP Accomplishments

Since 1962 when it was initiated, ROCAP has recorded many important achievements during times of growth, and in times of crises. Among them,

the following are notable:

- Between 1972 and 1987 LAAD loaned \$32 million of ROCAP funds to more than 150 agribusiness enterprises. Foreign exchange earnings exceeded \$50 million, and approximately 10,000 direct jobs were created. In spite of the political turmoil and economic crises taking place throughout the region, LAAD had a repayment rate of 99%, excluding losses absorbed by LAAD in Nicaragua of approximately \$2 million.
- With ROCAP support, INCAP has helped each country in the region develop national five-year child survival plans which have, to date, mobilized over \$30 million in other donor resources for MCH/Child Survival activities.
- ROCAP was a leader in the formation of the Central American Common Market (CAOM), which was responsible for stimulating growth in intra-regional trade from \$9 million in 1963 to over \$1 billion in 1980.
- The Central American Bank (CABEI), with ROCAP support, has been the major lender in developing the infrastructure of regional highways, ports, telecommunications, and electrical power which has brought about physical integration of the region and contributed to the regional orientation of national development.
- Through the efforts of CAOM and CABEI, regional GDP increased at the rate of 5.5% per year in the 1960's and 1970's.
- Since its founding, CABEI has accounted for 20% of the external financing flowing into the region. More recently, ROCAP has helped CABEI raise over \$70 million in non-US concessional financing for the region.
- ROCAP helped establish the premier business administration graduate school (INCAE) in Latin America. Following the 1985 elections, INCAE was asked

to work with the governments of El Salvador, Guatemala and Costa Rica to formulate new democratic agendas and to restructure bureaucratic organizations to better address the emerging democratic programs. At least two cabinet ministers in each of these governments are INCAE graduates. Over 80 percent of INCAE's 3,000 masters-level graduates continue to work in the region.

- Coffee has traditionally been the largest single generator of foreign exchange in Central America. Working through IICA and CATIE, ROCAP has developed technologies for control of coffee rust and coffee bean borer. Coffee rust can now be controlled with only one to three applications of fungicide, applied at the proper time, instead of five to eight applications. The amount of chemical per application can also be reduced by 30%, with savings for potentially 250,000 small farmers of about \$40 per hectare annually. Reproducing coffee species by the tissue culture method has reduced by 30 years the time required between selection of a superior rust resistant plant and its release as a commercial variety.
- A low cost, solar energy evaporation technology developed by ICAITI with ROCAP assistance has improved salt production efficiency by 55%. During the past 4 years, over 140 new small enterprises using the solar evaporation technology have been established, over 100,000 cubic meters of fuelwood have been saved, and imports of salt in Guatemala have been reduced by over \$2 million per year.

II PROBLEM DESCRIPTION AND ANALYSIS

This analysis of constraints to development in Central America is structured around the five Agency problem areas (supplemented by LAC Bureau concerns), shown in the column on the left. The column on the right shows the relationship to the LAC Bureau's MBO system, around which we have organized Part III, Strategy.

AGENCY PROBLEM AREA	BUREAU GOALS AND OBJECTIVES
A. <u>Inadequate Income</u>	I. <u>ECONOMIC STABILIZATION</u> , and II. <u>ECONOMIC REFORMS FOR GROWTH</u>
<u>Constraints Analysis</u>	<u>Objectives</u>
1. Inadequate Income	3. Stabilize Financial Structures 4. Increase GDP 5. Promote Exports
2. Agricultural Sector Deficiencies	1. Increase Agricultural Production
3. Degradation of Natural Resources	6. Preserve and Manage Natural Resources
4. Obstacles to Private Sector Development	2. Strengthen the Private Sector
5. Infrastructure Shortages	7. Expand/Improve Infrastructure

B. <u>Hunger</u>	III. <u>SPREADING THE BENEFITS OF GROWTH</u>
	1. Increase Agricultural Production
	10. Reduce Infant/Child Mortality
C. <u>Health Deficiencies</u>	9. Improve Health and Health Services
6. Health Deficiencies	10. Reduce Infant/Child Mortality

D. Lack of Education

7. Lack of Access to Basic
and Professional
Education.

12. Improve Educational
Opportunities

13. Increase Participant Training

E. Unmanageable Population
Pressures

8. Rapid population growth
and lack of access to
voluntary family planning

8. Increase Access to Voluntary
Family Planning Services

LAC Bureau Concerns

9. Housing Shortages

11. Improve Housing

F. Strengthen Democratic
Institutions

IV. STRENGTHEN DEMOCRATIC INSTITUTIONS

10. Weak Democratic
Traditions & Institutions

14. Strengthen Democratic
Institutions

11. Other constraints

15. Other Objectives

A. Inadequate Income Growth

1. Slow Growth Rates

Levels of poverty in Central America are striking evidence of the long history of inadequate economic growth (GDP) and distribution of benefits in the region. In 1980 over half the families in Honduras (57%) and El Salvador (51%), and 40% in Guatemala were classified in extreme poverty. This existed even after two decades of sustained economic growth of 5.6% annually from 1965 until the oil-price shocks of 1973-1974, and continued growth at about 4%

annually through 1979. Conditions then worsened with the enormous setbacks of the early 1980s from which the Central American economies have only partially recovered.

The declines in economic activity were most evident in the industrial and service sectors, in which annual growth was roughly 6 and 8 percentage points lower during 1980-85, respectively, compared to 1965-80. Agriculture is the primary economic base of the core Central American countries and is the largest generator of income and employment. The sector experienced a roughly 3 percentage point drop over the same periods. Agriculture's share of GDP ranges from 19% of the total (El Salvador) to 27% (Honduras), compared with 2-4% in developed countries.

From an individual standpoint, the slow but positive per capita growth of about 2.5% per year from 1965 to 1979 was abruptly reversed with the economic crises of the 1980s, hitting a low of -5.9% in 1982 and averaging -4.3% annually for the 1980-1983 period. Per capita income has remained negative since then, but at a lesser rate, averaging -0.8 % from 1984-1987. Clearly income growth for the Central American population is inadequate.

As the high poverty figures suggest, income is highly skewed. The top fifth of families ranked by income in each country receive from 49% of total income (in Costa Rica) to 66% (in El Salvador), while the bottom fifth receive less than 5%.

Foreign trade balances have been persistently negative, in part because of imbalances in foreign exchange rates for regional currencies. The value of exports dropped sharply due to declines in the prices for traditional agricultural exports from the region and reductions in the U.S. sugar quota.

Imports peaked in 1980 and declined precipitously in 1981. Trade was sharply curtailed within the Common Market as balances were not cleared, due in large part to defaults by Nicaragua. Trade within the area has declined steadily each year since then due to declining investment levels and the weakness of the economies of the region.

A long history of economic and political power concentrated among small elite groups in each country provides the fundamental cause for unevenly shared benefits and inadequate income growth. The majority of the labor force is employed in agriculture, the least productive sector. Medium level and higher education is not widespread. Urbanization is bringing segments of the population within easier reach of formal education, but the building of a more skilled and experienced labor force is a slow process. Furthermore, the land-holding elites have not traditionally been active entrepreneurs, and the associated business skills and attitudes are scarce.

The historical base for economic problems has been exacerbated during the 1980s by the civil unrest, for not only did that lead to the major default by Nicaragua of over \$200 million in foreign debt which brought about the de facto end of the CAQM, but it also provoked a crisis in investor confidence that led to an approximate halving of private investment as a proportion of GDP in the region. Coupled with the declines in major commodity prices, the rise in oil prices, and the major fiscal deficits of each of the countries of the region, foreign-held debt rose rapidly and debt service became a major claim upon export earnings.

2. Agriculture Sector Defficiencies

The performance of the agricultural sector is disappointing, as food production and production for export both remain low. Food availability and

calorie intake are insufficient by FAO/WHO standards for large percentages of the population in Guatemala (69%), El Salvador (72%), and Honduras (60%). Yields of basic grains are low, being 22% in corn, 38% in beans, 36% in soybeans, and 48% in rice of averages found in the U.S. While non-traditional agricultural exports are growing, they still constitute less than 10% of exports.

The overall context for agricultural development is limiting. It is characterized by a relatively small number of large and medium sized farms, generally well endowed with water and soil resources, technology and capital on one side, and hundreds of thousands of small farms of marginal endowment, productivity, and access to technology on the other. Food and export cropping on the smaller farms is affected by pest damage, resulting in losses as high as 30-40%. The poverty and illiteracy among these farmers reduces their ability to understand and access modern technology. High unemployment in both rural and urban areas constrains demand for food, as well as consumption levels. Moreover, the resource base for agriculture is endangered, as discussed in the following section.

Among Central American producers and exporters, major obstacles to increasing non-traditional exports are the scarcity of current market information and a general lack of experience in meeting the requirements of world markets. Markets for domestically-consumed products are poorly organized and fragmented. These long-standing structural problems require broad solutions, only part of which can be treated by actions within the agricultural sector.

The agricultural development institutions' ability to create the conditions for growth in food production, respond to opportunities for increased exports, weigh the options and implications between these, and support specific actions, is limited to a great extent by their insufficient capacity to conduct policy research and analysis, define the consequences of various alternatives, and influence the decisions of leaders. Agricultural policy work is often carried out in isolation from other policy arenas where key decisions affecting the sector (regarding trade and exchange rate regimes, interest rates, land use planning, and infrastructure planning) are made. Within the agricultural sector, resources for development are limited in such areas as technology development and dissemination, and development of mechanisms that would support increased trade (grading and inspection, market forecasting and reporting, plant and animal sanitation, and border clearance expediting).

The ability of agricultural development agencies to respond is also limited by the numbers and kinds of personnel who are available. ROCAP's 1987 study of the needs for trained agricultural technicians finds, for example, that in the five Central American countries and Panama there are only 109 MS- and 27 PhD-holding agricultural researchers. There are also shortages among the cadre needed to transfer and apply improved technologies, such as farm managers, people skilled in grading, packaging and marketing of non-traditional products, small-scale irrigation/drainage systems, natural resources specialists, and a number of other fields.

The agricultural situation is clearly marked by a number of interlocking economic, financial, and technical constraints, all of which are

present in varying degrees in each of the CA/P countries. A number of these constraints are common, but require action primarily at the national level (such as basic grain policy), while some are regional (such as trade procedures), but the mechanisms for working on them cooperatively among the countries have not been effective. It does not make good sense in times of economic difficulties for all of the countries to try to establish research and dissemination programs in a wide range of commodities. It is an unproductive use of scarce resources for each country to seek original solutions, to grow all crops using locally developed methods, to maintain protective barriers, and to establish separate export development offices overseas.

The challenge in the agricultural sector, then, is to find ways to make agriculture more productive, more responsive to changing conditions in world and regional demand for food, and to have a policy framework, appropriate technology, and trained personnel that work both nationally and regionally to support farmers and marketing mechanisms who can supply what is needed to increase rural incomes, earn or save foreign exchange, and improve nutrition.

3. Natural Resources and Environmental Degradation

The 1987 ROCAP-funded Regional Environmental Profile highlights that, despite the diversity in natural environments and distribution of population, level of economic development, and access to wealth and physical resources, all of the countries of the region share a common, dynamic and critical interrelationship between natural resources, population and economic development. It is a region of almost unparalleled natural diversity, one

that is extraordinarily rich in renewable resources and yet fragile and highly susceptible to natural disasters and overexploitation at the hands of man. The well-being of the majority of the population still depends heavily upon agriculture and the renewable natural resource systems of the region. The system is wide-ranging, including the sustenance from small farmer production; revenues from timber, livestock, commercial crops, and fruits of the bountiful coastal waters; employment from natural resource processing industries; and the tangible goods and services supplied by the region's resources, including water for hydro-electric power, firewood, lumber, and water. With projected development trends, economic activity will be highly dependent on agriculture and the natural resource base far into the future. Natural resource-based industries will remain the cornerstone of all the economies in greater Central America.

The regional environmental profile concluded that much of the development work in the region has contributed to damaging the environment and natural resource base, presenting a classic dilemma. As populations have grown, more land has been brought into cultivation. Pressures to increase exports, coupled with inefficient agricultural production systems, have resulted in the loss of tropical forest and other ecological resources and the misuse of prime land. Cultivation is now widespread in fragile lowlands on both coasts, and chemical applications have expanded rapidly. Production alternatives that are more suitable to the humid tropics, such as forestry and permanent crops, are not adequately applied.

Much of the forest cover has already been lost -- and although 40% of total land area remains in trees, that will be gone in 35 years unless

management practices change. The humid tropical forests and ocean reefs that provide the habitats for thousands of life forms essential to development are threatened. The loss of biological diversity that is the basis for modern agricultural, biological and medical innovation is especially worrisome in Central America, where life forms of two continents are mingled.

Eroded and degraded land is estimated to be as high as 55% in El Salvador, 35% in Guatemala, with the problem evident in the developed areas of the other countries as well. The land on the Pacific side of the isthmus is more affected by erosion due to the climatic factors and the absence of soil conservation measures, while on the Atlantic side, loss of fertility, soil compaction and other forms of soil degradation are key problems in the newly cleared humid areas. Urbanization is also taking prime farm land out of production.

Water supplies are endangered, even though the region is generally well-endowed with rainfall. The magnitude of the problem is evident in the lack of watershed management, resulting in the siltation of reservoirs, greater fluctuation in seasonal stream flows, increased flood damage, and decreased water quality. The future of hydroelectric power (now providing 66% of the region's electricity), potable water, irrigation (currently underutilized), navigation and tourism is threatened. Pesticide abuse has become a cause for alarm, as a side effect of the modernization of agriculture and anti-malaria campaigns. This impacts adversely on public health, animal and aquatic populations, and access to U.S. markets due to chemical-laden produce. Untreated sewage and chemical wastes are other major problems deserving attention.

Central American policies, regulations, and organizations which deal with the natural resource/environmental problems of the region are operationally and financially weak, and are ineffective in the face of the development programs that exacerbate the destructive trends. Public awareness of the magnitude and causes of these trends among Central Americans is low, though it is growing. Governments that are seeking to provide employment, food and health for their people and increase their exports have not focused the necessary attention and funds on these problems.

4. Obstacles to Private Sector Industrial Expansion and Trade

The economic crisis and slow recovery in Central America have been thoroughly analyzed in recent years. External factors, such as high oil prices, declining or stagnant prices of major traditional commodity exports, and the high cost of borrowed capital have worked against economic growth. Macroeconomic policies on exchange rates, unequal treatment of government debt, and private investment returns have inhibited trade and savings for investment. Other factors internal to the region, most notably political strife within and between countries, and natural disasters, have created a negative climate for investment. Clinging to obsolete or inappropriate economic and fiscal policies has contributed to the slowness of the recovery, or inability to take advantage of new or alternative opportunities for production and trade. The protective barrier around the CACM, unrealistic official rates of exchange, regulation of industry, trade, and finance, outmoded tax policies and systems, and limited competition in the transport sector have been obstacles to new investment and trade.

The businessman in Central America, whose views have been recently assessed by ROCAP studies of capital markets, the industrial sector, and the transportation system in the region, is cautiously optimistic, but feels hampered by the factors noted above. The problems can be best understood by looking at the situation from the entrepreneur's perspective. He finds that capital is available, though often at a high cost, and difficult to obtain. Venture capital, in the form of equity, is practically nonexistent. Foreign exchange, needed to assure a supply of raw material or semi-finished goods, is also difficult to obtain. His banker is slow, bureaucratic, and conservative. The special lending funds established by foreign donors are restricted by a host of rules and procedures that baffle him, and keep him waiting. For him, such delays result in foregone opportunities, lost sales and reduced profits. While he is encouraged to export, his product is taxed by his government, and trade with neighboring Central American countries is limited by the absence of clearing mechanisms, contracts of carriage and brokerage services, complications at border crossings, and lack of ways to settle disputes.

His plant may be small and producing profitably for the protected local market, but if he wishes to expand and test the export market, he doesn't know where to turn to find the plant design or improved technology and quality control that he may need. He doesn't know how to market his product in the industrialized countries, what port to use, what price he will get, or what regulatory or other barriers may await his product when it enters the other country. If he is a larger producer who geared his plant to the CACM, it may be operating at 50% of capacity due to the nearly 70% drop in intra-regional trade since 1980. It is probably a relatively obsolete and

inefficient plant, dependent on imported raw materials, and producing items of poor quality by international standards. His energy supply may be costly or unreliable. He has to face the prospects of either a major overhaul, a joint venture with a foreign investor, or possibly starting over in a new field. If he is one of the 60% whose business is based on agriculture, and he is not vertically integrated (i.e. producing his own raw materials), he probably has problems with his suppliers. Their product is of variable quality, often not delivered when he needs it to fill an order, not well graded and selected for his operation, or poorly prepared to put it into his packing or processing system.

Both the large and smaller-scale empresario may encounter difficulties in recruiting the personnel they need for their expanded, modified, or new businesses. While the labor force is plentiful and better educated than in past years, he may find that they do not have the knowledge and skills needed for a modern manufacturing plant. Plant layout people, floor supervisors, operators of modern equipment, maintenance technicians, computer operators, quality designers and controllers, financial and personnel managers, marketers, cost analysts, and other key skills are in short supply, and he may have to pay for their training himself, though he may not have access to financing for this purpose.

AID has provided the largest external source of funds for investment and credit to the Central American region. In 1986, AID provided \$267 million, IDB \$105 million, and other donor governments \$27 million. In addition, the combined amount of international commercial bank and international bond placements totalled \$235 million in new capital. AID

Economic Support Fund programs and World Bank loans provide two additional sources of term credit administered through special facilities to the central banks for further discounting to the banking system.

Export finance and investment bank institutions have been developed and assisted by AID in almost every country in the region, e.g., FIDESIA in Panama, COFISA, BANEX and PIC in Costa Rica, others in Honduras and Guatemala. Nevertheless, there remains a shortage of medium- and long-term financing or equity capital for developmental projects and other private sector investments involving higher risk. We attribute this to the limited personnel and financial resources of these organizations relative to the demand for risk capital, and to the commercial bank training and orientation of the management of these institutions.

The Latin American Agricultural Development Corporation (LAAD) is an example of successful AID assistance. However, LAAD is solely focused on the agribusiness sector, and has had only limited participation in equity investments. The Central American Bank for Economic Integration (CABEI), although primarily a public sector second-tier bank, has engaged in direct lending to the private sector. Yet CABEI has curtailed its direct private sector lending activities because of the poor performance of this part of its loan portfolio. The traditional agricultural development banks in the region have not been able to respond in a timely, knowledgeable way to the needs of investors for medium- and long-term financing in Central America. As a result, some of these institutions have sizable amounts of funds available, but few applications pending.

In short, the system of incentives and support that the Central American entrepreneur needs is inadequate and often contradictory. Individual countries (most notably Costa Rica and Guatemala) have taken steps, however, with A.I.D. and other donors, to improve the investment climate, increase the availability of capital, improve the stock of trained personnel and identify new markets within and outside the region.

5. Infrastructure Deficiencies

Apart from areas in El Salvador and Nicaragua that have suffered damage from war and natural disasters, the populated areas of the region have a reasonable endowment of roads, ports, energy supplies, and other basic infrastructure. The feeder road system needs expansion, airports and sea ports are not fully geared to the new export requirements, and maintenance and repair have suffered during the last years of economic strictures. Environmental management to assure the useful lives of infrastructure investments is a serious need. A major unexploited opportunity is the potential for expanding irrigation in order to better use appropriate land. Our environmental assessment showed that only 10% of the farm land has been developed with adequate irrigation and drainage, compared to 24% in Mexico, where irrigated land produces more than 50% of the value of agricultural production.

The generation and transmission of electricity have undergone major changes over the past decade. Relatively large hydro projects have substantially reduced oil consumption for generation and formerly isolated national grids have been interconnected. Regional electricity transfers have grown despite political problems and guerilla activities in Nicaragua and

El Salvador. However, the region is not self-sufficient in energy. Up to 15 percent of total imports are for petroleum and its derivatives to which must be added over half of the capital investments for the energy sector.

Currently, about 40 percent of the region's debt is attributable to the energy sector, primarily in the electrical sub-sector. This sector is now in a financially precarious state and the ability to invest in new capacity may be inadequate. Shortages can be expected by the early 1990's while watershed deterioration threatens the longer term productivity of most of the region's major hydroelectric investments. Geothermal based generation can play a growing role in all of the countries, except Belize.

National debt problems seriously constrain the prospects for timely maintenance and new investment in transport and energy infrastructure. The electric subsector is particularly threatened by financial disequilibrium. Yet with inadequate tariffs to cover costs and amortization, necessary investments for the future may be delayed.

B. Hunger, Undernutrition, and Health Deficiencies

Overall health indicators, such as life expectancy and infant and child mortality, have steadily improved over the past 20 years. Yet, for a high proportion of Central Americans, especially in El Salvador, Guatemala and Honduras, the vicious cycle of undernutrition and infectious disease still takes a high toll on families with too many children born too close together, too little income, too little food available at an affordable price and too little knowledge of nutrition and child care. Infant and child mortality rates remain high in Honduras, Guatemala and El Salvador, with rates of

68-79/1000 for infant mortality and 6.8-15.5/1000 for child mortality.

ROCAP's recent analysis of a wide range of data shows that children under age 5 in Costa Rica have had improved nutritional status over the last 16 years, while in Guatemala and Panama their status has declined, and in the other countries nutritional status has remained poor. In El Salvador, Guatemala and Honduras, 44-60% of children under five are affected by severe growth retardation due to undernutrition and disease, while in Panama, 25% of children suffer severe growth retardation. By AID standards (more than 20% of children suffering severe undernourishment) all four countries demonstrate serious problems of undernutrition in young children.

It is nearly impossible to discuss separately problems of hunger and of health, since the latter is nearly always linked to the former. Susceptible to disease because of inadequate food intake, a child becomes infected, often with a diarrheal disease, and her caretaker cuts back on the child's food and liquid intake, making the child weaker and at risk of additional infections. Leading causes of death among children under 5 in Central America are diarrheal disease, acute respiratory infections (whooping cough, measles and others), low birth weight and perinatal problems, all complicated by malnutrition. This situation is a symptom of severe poverty that still affects from 25% of the population in Costa Rica to 70% in Guatemala, made worse by population dislocations caused by wars and disasters, by a growing rate of rural-urban migration, and by the economic crisis of the last few years. Environmental and natural resources degradation, along with pesticide use, are contributors to health problems as well. Data is sketchy, slow to arrive, and often under-reported and unreliable (see below), but the

data show that severe needs persist, and that the public and private health and medical systems generally are failing to reach those most in need.

Health systems in Central America show persistent deficiencies. These are fundamental and historical. The recent budgetary limitations that reduced supplies and operating funds have correspondingly reduced the delivery of information and services to needy groups. But even with additional funding, the systems are marked by structural, policy, and management and organizational problems that need attention. The system problems are those seen throughout Latin America, including inadequate information on health and nutrition needs to use as the basis for better planning of public health and food and nutrition programs; inability of system managers to appropriately use good information; orientation and emphasis toward curative, urban treatment by medical personnel lacking a commitment to preventive, basic care and education; centralization of health service delivery and resource management; weak logistic systems for such efforts as immunizations, and insufficient numbers of adequately and appropriately trained personnel both in public health technical areas and in administrative/management subjects.

As in other sectors, new thinking is required in order to achieve economies of scale, avoid duplicative problem solving by five or six under-funded national health systems, and better coordinate and focus the efforts of several donors working on these problems, sometimes at cross-purposes.

C. Lack of Education

In Central America, fast growing populations are putting heavy pressures on already overly stressed educational systems. While enrollment is

growing, the quality and value of education is perceived as worsening. Average school enrollments, as a ratio of population in age groups for the region, indicate the following: primary education (92%), secondary (33%) and post-secondary (11.6%). Levels of school achievement tend to be low, with a high percentage of elementary age level children dropping out at the 3-5 grade level. National budget support for public education has been declining in the countries of the region over the past ten years.

Adult literacy rates in the region range from the high levels of Costa Rica (88%) and Panama (87%) to the lower ones in El Salvador (62%), Honduras (57%) and Guatemala (46%). Limited efforts are being made in the region to improve adult literacy.

Opportunities for higher education in the region, both academic and technical, are limited by the restricted number and variety of advanced academic and technical training, the quality of the existing education, and the scarcity of scholarships. The advanced training that does exist at the national level often does not prepare graduates adequately in the areas of agriculture, health and mid-level business, industrial, and public sector management.

Agriculture is a complex, technology based, incentive responsive private business. Skilled agricultural professionals are a basic ingredient for increasing agricultural productivity and production, and personnel with specialized training at the professional and subprofessional levels are required for the development and delivery of technologies. Other specialization is needed for the planning, management, and regulation of sector organizations, which range from public sector agencies to producers'

associations, and include agribusinesses, banks and input and product markets.

Our 1987 study of regional agricultural training institutions showed that the demand for graduates exceeds current supply. The capacity of various national and regional institutions to provide high quality, relevant training is restricted by inadequate core support for the institutions, lack of scholarship funding, and weak interinstitutional collaboration both within and outside the region.

Both national and regional schools of business administration exist; however, the effectiveness and comprehensiveness of the training varies widely. There are not enough programs providing trainees with "hands on" production experience. English language training and training for drawback industry need to be more extensive. In management training, INCAE does an outstanding job, but its MBA graduates can meet only a small percentage of the need, and only at the top levels. More practical middle level management training is needed, especially in technical areas such as quality control, maintenance and international marketing.

At the vocational level, constraints include inadequate academic preparation to enter vocational schools, inferior teacher preparation, traditional and ineffective teaching methods, insufficient physical facilities and equipment, and, perhaps most important, shrinking budgets due to national austerity programs.

Academic training in the health sector does not have sufficient public health focus, resulting in doctors and graduate nurses with little knowledge and appreciation of preventive health care or epidemiology. There is no school of public health in the region. One of the major constraints to

adequate health service delivery in the region is weak management and administration skills in the health sector; yet organized, systematic training in management and administration of health delivery services is virtually non-existent in the region. International assistance, including AID, is providing short-term, on-the-job training in systems management as part of an effort to improve current health delivery systems. However, this does not solve the more fundamental problem of the lack of a sustainable source of adequately trained health sector managers and administrators at all levels.

While a major effort is required to provide adequate universal primary school education and literacy, a strengthening of professional and advanced technical education which reflects regional and national needs is also urgently required.

D. Population Pressures and Housing/Community Services Shortages

Birth rates have declined in the last 20 years, but so have mortality rates, resulting in a high, steady population growth rate of 2.7% per annum during the 1982-87 period. Children under 15 years make up 45% of the region's people, though the populations are aging in all countries except Salvador. As important as the galloping population growth rate, with the strain it places on overloaded and underfunded development agencies and the resource base, are the movements of groups from rural to urban areas, and displaced people within countries and refugees across borders, fleeing the civil strife in their communities. In the expanding urban areas, only 42% of the population have access to sewerage, and in Guatemala City, only 44% have access to potable water. In the region, 70 percent of the urban dwellers live in substandard housing, according to A.I.D.'s Office of Housing. Estimates of

total displaced and refugees range from .9 to 1.3 million, with attendant problems of employment, hunger, and health problems. Resettling these people will be a major effort when conflict is reduced.

E. Fragility of Democratic Institutions

As proposed in the plan for full funding of the NBCCA recommendations, A.I.D. assistance aimed at strengthening democratic institutions in the region will likely grow in size and scope and will continue though the planning period. Specific activities will include administration of justice, leadership training, improvement of electoral processes, strengthening of local governments and legislative processes. Within these areas there are many opportunities to enhance and improve AID's efforts through specific regional approaches. The most obvious relate to the development of the Central American Parliament (presently foreseen to initiate operation in early 1989) and the proposed Central American Development Organization, should it become a reality. In addition, certain efficiencies and improvements could be provided to bilateral and LAC wide efforts in the administration of justice, electoral processes and leadership training.

The treaty for the establishment of a Central American Parliament has been signed by the five core countries of the region, including Nicaragua. However, it is clear that many steps to its effective initiation remain to be adequately defined. The conduct of elections in each country will likely require both technical assistance and funding support. Once it becomes operational, the Parliament will face numerous challenges. Coming from the limited pool of talent in the new political parties, many legislators will be inexperienced in legislative process and procedures. They will lack

experience in analysis of issues, in consensus building, and in non-confrontational problem solving. The staff of the Parliament will have to develop operating policies and procedures and organize committee functions. At the early stages of the Parliament's development, it is vital that it not fall prey to the forces which might render it simply a debating society without real impact on regional events and interests.

The path towards establishing CADO has been slow and difficult, and the outcome is uncertain. The locus of action has been at the national level, with AID/W and other Washington based organizations appropriately representing U.S. views and interests. However, should CADO come into being, the regional cooperation required for its success suggests that it would benefit significantly from 1) interaction with some of the established Central American regional organizations (eg. CABEI, INCAE, FEDEPRICAP), and 2) dealing with the U.S. government through an organization with a regional mandate and located in the region (viz. ROCAP) which has long-standing relationships with the regional organizations. This combination would enable CADO to initiate operations quickly and effectively, and provide an immediate mechanism for coordinating its relationships with various elements of the U.S. public and private sectors.

III STRATEGY for FY1989 - FY1993

A. Summary, Comparative Advantage, and Rationale for Concentration

1. Summary of Goals and Objectives

ROCAP has selected goals and objectives for the FY 1989-1993 planning period that correspond to the given resource constraints (\$25 million in Development Assistance funds, \$5 million in Economic Support Funds, and 11 US Direct Hire Staff for the foreseeable future). At these levels, we will be able to (a) support sustained growth of income through increased agriculture production and export promotion, improved natural resources and environmental management, and economic policy development for investment and trade; (b) contribute to spreading the benefits of that growth through a reduction in child mortality rates, improved nutritional status, household food availability, and housing; and (c) support the strengthening of democratic institutions through studies, advisory services, and participant training.

At a higher level of funding and staff which might result from significant changes in the political environment in Central America, our program would be expanded in agriculture and natural resources/environmental concerns, and we would work on improving the infrastructure needed for export growth. A summary of these ideas is provided in Annex 1.

2. ROCAP's Comparative Advantage

With the advent of the Central American Initiative, significant amounts of resources have been made available to the region. Bilateral Missions now have large programs and sizeable staffs. In some countries, the USAID appears able to fund and manage almost any undertaking which may support national development efforts. Under these circumstances, it is appropriate to

consider the unique ways in which ROCAP can play a significant role in achieving CAI objectives.

ROCAP relates to treaty organizations supported by member governments and international donors, bilateral USAIDs and other donors with country specific frames of reference. ROCAP has no management authority over USAIDs, nor direct policy leverage at the country levels. Rather it exerts influence regionally with and through a wide range of others who take the specific actions which can result in change and improvement in economic and social indicators. ROCAP appropriately addresses development constraints that (a) affect all of the countries; (b) require regional solutions, (c) are best treated in a non-duplicative way to conserve limited financial and human resources; or (d) require innovation or experimentation that is not cost-effective to pursue in each country. In a changing environment, and under current resource constraints, ROCAP is a flexible and responsive mechanism to have important, cost-effective impact within a few well-selected areas of endeavor.

There are many ways in which the inherent comparative advantage of regional programs are manifested. ROCAP has had numerous successes in achieving cost-effective development objectives and we see additional opportunities over the RDSS planning period.

The most obvious advantage of a regional approach is the achievement of economies of scale in the provision of scarce or costly development resources. The small economies and paucity of qualified human resources argue against each country attempting to establish and maintain a full range of institutions for basic research and graduate degree education. Organizations

like CATIE, INCAP and INCAE can, and do, supply these needed resources for all the countries of Central America. Another example is seen in the area of non-traditional agricultural exports. All the countries are attempting to increase significantly such exports, but, in the early stages, none has had the volume of production to justify a broad range of technical consultants. ROCAP has made available to the region a team of highly qualified experts in production, post-harvest handling, packaging, transportation, marketing and other specialties. A third example can be found in natural resource management, where specific technical problems often require relatively small scale solutions and assistance. The funding of efforts by international NGOs and their national affiliates can achieve significant economies as well as relieve bilateral USAIDs from dealing with numerous small projects.

A second obvious comparative advantage of ROCAP derives from the interdependency of the countries and development problems. For some regional problems, a regional solution is imperative. Thus, coffee diseases cannot be effectively controlled country by country. If not contained in all the countries simultaneously, a disease will reoccur where earlier it may have been brought under control. Thus, the ROCAP coffee pest project is not only a cost-effective approach, but a necessity. Interconnecting infrastructure and cross-border watersheds are other situations that call for regional approaches.

ROCAP's advantage is also evident where standardization of infrastructure or of analysis and implementation technologies and methodologies are needed. In the power grid and telecommunications networks, the requirement for standardization is obvious. Perhaps overlooked to date is the similar need related to ports and airports which will be handling

increasing volumes of new export products. The advantages of standardization of methodology in economic analysis and trade statistics are also obvious. Perhaps less obvious are the advantages of standardized approaches in other fields. Through ROCAP's work with INCAP, the worldwide effort to find standard approaches to improving food assistance delivery systems is making important progress. Standardization of implementation methodology and project design through learning from collective experience for dealing with natural resource management issues is another area where ROCAP is making a contribution.

ROCAP also has a seldom appreciated advantage due to the inherent differences in structure and mission of the regional organizations and their national counterparts. Their relative distance from the immediate political exigencies or financial crises of the member countries allows these organizations to undertake programming which would be difficult or impossible through bilateral efforts. The analysis of politically sensitive issues such as monetary policy and the ability to maintain a long range perspective on research problems are examples of activities which can be carried out by the regional institutions. On the bilateral level, as well, the neutrality of the regional organizations provides important benefits. Because both ROCAP and the regional organizations generally do not get caught up in temporal bilateral political issues, ROCAP is able to provide long term continuity to the USG's development agenda for the region.

A unique aspect of ROCAP programming is our ability to bring together a number of regional and national organizations to pool their efforts to resolve development problems. A recently initiated project mobilizes IICA,

CATIE and national research programs to share existing information and undertake joint research on cacao in order to increase export earnings from this important Central American crop. Another new ROCAP project will have CABEI lending for shelter and urban development, with another regional organization (such as INCAE) providing training for professionals in the sector. During the planning period, we expect to foster cooperative efforts of FEDEPRICAP, SIECA and INCAE to deal with such issues as tariff regimes, public-private sector dialogue, clearances of trade transactions, and strengthening capital markets.

The final ROCAP advantage which we will mention here is our ability to enhance national development efforts through cross fertilization. This ability has long been demonstrated in such fields as agricultural research, business administration training and health policy. Recent efforts have added new examples to the list. Our Non-traditional Agriculture Export Support Project has provided invaluable technical assistance and training to the national export federations, which are also receiving complementary assistance from bilateral Missions. Under our CAPS program, the very first batch of public sector auditors (analogues to U.S. GAO or Inspectors General), while in training in the U.S., recognized their commonality of interests and problems and decided to form a regional association to keep up contacts and to share information and techniques. We see many such opportunities in the future whereby joint training of groups of technicians, legislators and election officials can produce increased benefits for their home countries.

3. Rationale for ROCAP Concentration

Clearly the region needs to accelerate economic growth through

stimulation of investment in industrial and agricultural sectors and a reactivated trade regime. Health and nutrition problems will be ameliorated as growth occurs, but not without additional attention to the delivery systems established to address them. Both the private and the public sectors need better policy, planning and technical inputs in addition to capital. The human resources of the region need to be trained to respond to changing conditions. Natural resource and environmental damage must be arrested and/or repaired, and this can occur through teamwork between regional and country programs.

ROCAP is certainly not alone in its diagnosis of needs and future directions. Central American technicians and leaders are often leading the way. Our conversations with USAIDs, U.N. agencies, Interamerican agencies, other bilateral donors, multilateral banks, non-governmental donors, and private investors indicate that they share our concerns and our assessment of a brighter future for the region.

At the same time there are gaps, both in content and in perspective. Few of these institutions treat the countries of the isthmus as a unit, and while they touch on every problem area discussed in this paper, coverage is uneven and incomplete. This is where ROCAP's comparative advantage can be applied. Many of the problems are attacked on a country-by-country basis, when they are in fact common problems or regional problems, resulting in high costs and duplication of efforts.

A key to development is using good information well to optimize limited resources. ROCAP's comparative advantage can be summed up as generating and supplying better information to help channel other donors' capital resources.

There are also LAC objectives which are better addressed through bilateral relationships or major capital transfers than through ROCAP programs. Under present circumstances, these are:

- a. Economic Stabilization: Other than possibly influencing trade-related policy dialogues through analytical inputs, ROCAP does not have leverage in this area beyond our present Economic Recovery Project with CABEL, which will phase out during the planning period.
- b. Increasing GDP is clearly a challenge for each country, and ROCAP actions will have only long-term and indirect impact on this objective.
- c. Strengthening the private sector is a theme throughout our program, and there are common and regional issues that we can illuminate to improve the quality of policy and technical support. We see it as a means to reaching our selected objectives rather than an end in itself.
- d. Improving the national systems of health and health services must be attacked country by country, as many of the factors require different emphases and treatments, as well as significant funding. Our work with INCAP on child survival provides essential technical inputs for improving national health systems, (such as methods of identifying target populations with epidemiological analysis) delivered through regional forums dealing with health solutions.

- e. Improving educational opportunities in primary and secondary education is clearly in the domain of USAIDs. We have chosen to incorporate major training and higher educational efforts in connection with the development, transfer, and dissemination of agricultural, health, and natural resources technologies under our other selected objectives.
- f. Increasing access to voluntary family planning services is an area of high political sensitivity requiring intimate contact with national institutions. Accordingly, we have not included family planning in our strategy.

In the areas of strategic emphasis discussed below, we believe that we have a significant contribution to make in helping Central Americans and their institutions take advantage of new opportunities and to reduce continuing problems. The details of what we plan to do, and how we plan to do it, are the subjects of the rest of this Part.

B. Goals, Objectives, and Program

1. LAC/CAI Goal No. 2 - BASIC STRUCTURAL REFORMS LEADING TO RAPID AND SUSTAINED GROWTH.

a. Overview: This is our highest priority given the slow pace of economic growth, and many other needs which cannot be met until employment opportunities and personal incomes are increased and sustained, especially among rural poor and new urban populations. To achieve growth and sustain it requires expertise and information that ROCAP can help mobilize and disseminate. We have chosen as our areas of involvement regional economic and trade policy dialogue, which is a special ROCAP objective and will serve as

the foundation for our sectoral emphasis; agricultural production, especially food availability; promotion of exports, where economies of scale and common problems are appropriate matters for ROCAP's attention; and natural resources and environmental management, where we will build on present knowledge and relationships. Other donors are active in most of the areas we have selected for concentration. USAIDs and other donors are working in economic policy to increase investment and trade, yet there is much for ROCAP to contribute. Although the IMF has the lead role in influencing economic policy on a national level, CAI funding has provided an opportunity for bilateral USAIDs to have influence in economic policy determination. The USAIDs have focused on national level policy vis-a-vis export and trade with the U.S. and other extra-regional markets. Now, given propitious signs of economic recovery and with the legacy of the CAQM well fixed in the minds of Central American policy makers, ROCAP has an opportunity to assist and promote market-oriented economic policy on a regional basis. Through a concerted effort in support of key private and public sector organizations, economic and trade policy changes needed to achieve growth and export promotion objectives can be brought about by the end of our planning period.

USAIDs are supporting policy dialogue and reform at the national level related to agricultural production. The World Bank also supports similar actions. IICA, through CORECA, provides some assistance to agricultural ministries for policy development at both the national and regional level. Several donors are also supporting training related to agricultural production by both national and regional institutions (i.e. CATIE, ESNACIFOR, EAP, ECAG). The amount of support is limited, however, and the type of donor varies considerably according to each regional institution.

Much of the support by both USAIDs and other donors to the regional institutions is limited to scholarships, small research or training grants, or equipment purchase. Some notable exceptions to this are USAID/Costa Rica's support of \$103 million in local currency for the establishment and operation of EARTH and its support to CATIE's infrastructure improvement of \$6.5 million in local currency; USAID Honduras' and the GOH's proposed endowment to EAP of \$30 million in local currency, and the United Kingdom support for the establishment of ECAG.

Various donors support research and technology transfer programs at the national and regional level. Significant weaknesses exist, however, in both research efforts and technology transfer systems for food crops. The EEC, BID, the CIAT network, CIMMYT and IRRI are all supporting national level research/technology transfer programs, but only in basic food grains and a few other traditional crops.

On the regional level, no donor is active in the areas proposed for ROCAP's program (i.e.. pest and pesticide management, tree crops, irrigation, post harvest handling and storage). Donor support for training in research within the region is limited, particularly for non-traditional crops. In addition, a 1987 ROCAP sponsored study shows that only limited research work is being conducted on non-traditional export crops in the region. Technology transfer systems are also inadequately supported. The current focus of donor support is on market information, post-harvest handling and transport constraints. Some notable exceptions to this include USAID/Honduras's funding of FHIA for a ten year period to do research and technology transfer activities on export commodities. USAID/Costa Rica's local currency support

to CATIE contributes to both educational and research programs including non-traditional crops.

Various donors provide support to watershed/natural resources management, environmental protection and preservation of biological diversity. The IDB funds national-level forestry projects in the region, while UNDP funds both national-level forestry and watershed management projects. Several USAID missions support or plan to support forestry, watershed management or biological diversity preservation, including Honduras, Costa Rica and Guatemala. Agricultural development projects (while often not directly related to preserving and managing natural resources), funded by USAIDs, IDB, World Bank and other donors, will directly benefit from expanded efforts to better plan and manage natural resources, improve pesticide management, and reduce negative environmental impacts.

ROCAP's agricultural strategy responds to AID's sector strategy on agriculture, particularly in the areas of policy development, strengthening human resources and institutional capacities, expanding the role of the private sector, and promoting linkages between international and regional research centers, national programs and other donors.

ROCAP's strategy is also in line with the Agency's policy guidance on environmental programs. The strategy specifically supports Policy Determinations 74 (Forestry Programs and Policies), Policy Determination 6 (Environmental and Natural Resources Aspects of Development Assistance), the Agency Environmental Sector Strategy Paper, dated December 18, 1982, and the recent LAC Regional Action Plan, which identifies the management and protection of natural resources as one of the principal Action areas.

In the area of small and medium size industrial export development, the CAQM was successful in establishing a free trade zone and in clearing multilateral payments, however no real industrial improvement or export specialization was achieved. In the 1980s, the CAQM collapsed for reasons that are now well documented. With 90% of Central American industries classified as small and medium (under 50 employees and accounting for 60% of industrial sector income), the majority are still working with technologies that are twenty years old or more. Opportunities for specialization in Central American products toward a worldwide market are extensive. At the present time, Central America is beginning to develop new economic and market strategies as evidenced by new laws favoring exports or new products, efforts to simplify procedures, tariff reductions or changes, new export organizations, increased efficiency and clearer rules.

USAID/Guatemala recently signed a \$10 million grant agreement with the Chamber of Private Enterprise. Part of this grant will go toward strengthening the economic and policy role of small and medium size private enterprise in Guatemala. The project will provide training and related policy dialogue. USAID/El Salvador has supported ongoing technical assistance programs for small business and export development, while USAID/Honduras has focused on assisting the industrial sector by providing training and services in non-traditional export development through FIDE and FEPROEXAAH. To a lesser extent, other USAID Missions and donors are providing assistance to help improve industrial capacity, although not specifically directed toward new and existing export-oriented small and medium size businesses.

There is ample opportunity for ROCAP to finance regional assistance in developing an export marketing and production information center, and to provide technical assistance to the industrial sector in both management training and production technology.

b. ROCAP Objective 15: Promote Regional Economic and Trade Policy
Development

Targets:

- 1) To increase Central American investment
as % of GDP from 10.7% to 14%
- 2) To mobilize savings
(Gross Private and Foreign Savings as % of GDP) from 14.5% to
17%
- 3) To stimulate trade--increasing total exports from \$3.5 billion
to \$3.9 billion
- 4) To improve and better utilize infrastructure--maintain
electrical energy reserve capacity of 15%

Rationale for Special Objective: The NBCCA projected that Central America's economic recovery would require \$24 billion in external resource flows, half from the USG and half from international institutions, other donor countries, and investments from private sector resources. Now, following three years of the program, it is increasingly evident that the flows from non-USG sources have not materialized at the expected levels. Flows from the World Bank have been disappointing, while the other donors, though helpful in the El Salvador earthquake reconstruction, have not been nearly as forthcoming with the democracies as they have for Nicaragua. Perhaps most significantly,

private investment from abroad, while gradually improving, is still a trickle, and is likely to remain so for the foreseeable future. It was anticipated that debt reschedulings would provide additional relief, but this too has fallen below projections as private bank rescheduling in Costa Rica and Honduras is stalled. The prospects for significant new private bank financing in the region are minimal.

U.S. aid cannot make up these shortfalls; nor would we propose this approach. From our perspective, a sound alternative to external flows is to identify ways for the Central Americans themselves to do much more than they have done to date to generate internal savings and investment, as a means to take charge of their own economic destiny. There is strong evidence that they are willing to do so. On the political front, the Central American Peace Accords and the recent decision to establish a Central American Parliament have made 1987 a historic year. We believe that 1988 will see significant progress on the economic front as well, as the leaders of the region seek to put into place the economic and trade reforms needed to translate political will into economic growth, either as a result of the peace process, or in pursuit of such a course without full participation by Nicaragua.

ROCAP was initiated to be the principal point of contact between the USG and the Central American integration movement. It played a major role in the formation of the CAQM and the establishment and evolution of the institutions which support regional cooperation. U.S. aid channeled through ROCAP has sustained these institutions during the recent years of political turmoil and economic collapse. The Central Americans are appreciative of ROCAP's past involvement and clearly look to the U.S. for advice and assistance as they attempt to forge a new economic order for the region.

ROCAP proposes to assist this process by fomenting and facilitating a broad dialogue between leadership of the region (public and private, business and academic, agricultural and industrial) primarily in the following Target areas of need and opportunity:

To increase Central American investment by: promoting policies that will encourage the return of flight capital; helping to identify and resolve bureaucratic and legal disincentives to both domestic (regional) and foreign investors; increasing the use of debt-swap mechanisms to support productive investment and reduce debt burdens; forming a regional stock and securities trading mechanism for private enterprise; establishing a Central American merchant bank which will mobilize and channel local and flight capital and provide necessary financial services.

To mobilize savings by: removing disincentives to savings by increasing competition within the banking system; ensuring that government borrowing through securities occurs at competitive market-oriented rates.

To stimulate trade by: the elimination of non-tariff trade barriers through a re-shaped CAQM; the development of a common currency unit to facilitate foreign currency exchange within C.A.; establishing cross-border trade financing facilities and alternatives for dealing with Nicaraguan trade debt; encouraging CA/P countries to pursue membership in the GATT; harmonizing A.I.D. financed bilateral trade and investment promotion efforts in the countries.

To improve and better utilize infrastructure by: prioritizing improvements in the regional transportation infrastructure required for the growing non-traditional export trade; assisting in the development of a

strategy for creating reliable air freight systems to the U.S. and other markets; exploration with Mexico of sealed cargo rail shipments to the U.S.; continuing efforts to improve the productivity of energy investments through planning, tariff and debt management analysis, and new supply options such as cogeneration and geothermal sources.

To explore other topics such as: developing mechanisms for harmonizing bank laws, and training programs for improving banking practices and procedures; improved financial reporting and information systems; sharing experience in the region on privatization programs; and establishing a regional economic data bank and improved analytical capabilities on key economic and trade issues.

ROCAP's implementation strategy will have as its purpose to build consensus within and between the public and private sectors. Therefore, we intend wherever possible to foment joint analysis and discussion of these and related issues. Specifically, we expect to involve both FEDEPRICAP (the umbrella private sector organization) and INCAE, and SIECA (the public economic integration secretariat), and INCAE through its Center for Economic Policy Study, in the identification of issues and in developing plans for resolving policy constraints. Specific programs will include FEDEPRICAP, SIECA, INCAE and other organizations and individuals who will assist in articulating the issues and organizing and managing seminars, conferences, and other fora through which a regional consensus and plans of action for Central America will be defined. Hence, this process itself will serve as a fundamental part of the consensus building program.

The effective implementation of this strategy will require close collaboration between LAC/W, ARA, and the bilateral USAID Missions and Embassies to ensure that the USG speaks with a common voice. It is essential to the integrity of this strategy and its long term success that the Central Americans themselves are in the lead and it is they who are responsible for and corresponsive to the decisions they make.

c. LAC/CAI Objective No. 1: Increase Agricultural Production.

Targets (by 1993):

- 1) Increase the availability of locally produced food to low-income farm households by 10%.
- 2) Increase the area planted to forest tree crops on farms by 37,500 has. (3000 has. planted on farms/country x 5 countries x 5 years x 50% of area influenced in some way by ROCAP supported actions)

ROCAP's overall strategy for reaching the targets is to support national public and private institutions and USAID Missions in CA/P in the generation, transfer and use of information needed for improved agricultural production and for the management of the natural resources to sustain that production. The strategy is directed at increasing the region's production of such basic food crops as corn, beans and vegetables as well as improved varieties of market-oriented trees.

The methods and program activities that will support the strategy involve steps to (a) CREATE THE POLICY ENVIRONMENT FOR DEVELOPMENT, by providing information and analyses needed for well-founded policy decisions in the agriculture and natural resource sectors; (b) TRAIN CENTRAL AMERICANS, by improving CA/P institutions' capability to provide professional level degree

and technical training related to agricultural production; (c) ADAPT TECHNOLOGIES, by supporting experiments in techniques for improved agricultural production; and (d) TRANSFER TECHNOLOGIES, by supporting the transfer of existing information and that generated by research to the potential users in the public and private institutions and producer groups in the countries.

In the policy area, ROCAP will support efforts to increase the capacity of the Ministries of Agriculture for policy analysis in linkages between macroeconomic policy and agricultural investment and production; pricing and marketing of food crops; intra-regional trade in food grains; incentive programs for forest tree planting and soil conservation; land use; irrigation water pricing and management; and sector resource allocation to research and technical education; by working through The Regional Agricultural Council (CORECA), INCAE, and INCAP to deal with policy constraints common to countries in the region or regional policies.

Work in training will focus on providing scholarships for graduate level (M.S.) study at CATIE in integrated pest management of food crops; tree crop production for wood and forage; on-farm soil and water conservation/irrigation; and mid-level study leading to a forestry degree. In addition, training will involve curriculum design and funding support for short-term professional and mid-level non-degree training for researchers, educators, technicians and extensionists in: integrated pest management and post-harvest handling and storage for food crops; tree crop production; on-farm soil and water conservation; and support for a regional training capacity in post harvest handling and storage of food crops. We will establish buy-in

mechanisms for USAIDs and other donors in these activities, thereby leveraging our investment. We will also seek means of establishing perpetual scholarship endowments to be supported by private and public donors in these and other areas.

Support for technology adaptation will include, among other actions: creating and implementing technology (research) networks in food crops through IICA, CATIE and IARCs; extending knowledge of food processing; validating integrated pest management technologies for food crops through CATIE, FHIA, EAP and other collaborating institutions; validating irrigation technologies for food crops and tree crop production technologies. We will also provide program support for expansion of genetic resource collections of economically important food crops, and to carry out research in integrated pest management, tree crop production, on-farm soil and water conservation, and selected disciplines related to food crop production.

A major additional thrust will be to accelerate the pace, broaden the channels, and improve the quality of technology transfer. This will include efforts to identify the most effective technology transfer methods, support the development and consolidation of extension materials, and help countries design programs for massive dissemination of technologies in integrated pest management, tree crop production, on-farm soil and water conservation, food crop production, and post-harvest handling and storage. This thrust will also seek means to share reference information needed for the implementation of the above technologies through the creation and operation of regionally accessible documentation centers, libraries and data bases; and through establishing and operating regional PVO coordination mechanisms to improve the channeling of

bilateral funding to national PVO and other groups to disseminate these technologies.

d. **LAC/CAI Objective No. 5: Promote Exports.**

Targets (by 1993):

- 1) Facilitate the movement of exports within and outside the region through improved efficiency in transportation systems and stronger support mechanisms.
- 2) Increase intra- and extra-regional export sales of small and medium size industry by \$50 million.
- 3) Increase yields of cacao by 50% on 25,000 has.
- 4) Increase coffee yields by 100 % on 273,000 has.
- 5) Increase value of non-traditional exports by \$65 million.

As a means of increasing non-traditional exports to intra- and extra-regional markets, ROCAP will support a series of low cost, high impact interventions designed to increase efficiency as well as reduce transportation costs at many levels of the export business, including the producer, intermediary brokering service and end-product distribution and marketing.

The ROCAP regional transportation study pointed to the need for CONTRACT LAW AMENDMENTS, whereby the acceptance of a simplified and legally binding contract of carriage would serve to facilitate transactions and provide for rapid, equitable recourse and settlement proceedings in the case of default or injury. The transportation study data show that an increase of 2% in non-traditional export sales, owing to the implementation of an

effective contractual mechanism, would produce an additional \$80 million in export earnings for the region.

TRAINING PROGRAMS FOR PRODUCT BROKERAGE AND PRE-INSPECTION SERVICES would permit the development of critical intermediary export capabilities currently not found in the region. Support for training initiatives of this type would create in short order a cadre of brokers and trained pre-inspection personnel in the region, and have an immediate impact on accelerating exports from the region, alleviating customs delays in Central America and in the U.S., and in general, increasing the overall profitability of exports.

In addition, other institutional strengthening activities for overcoming transportation related constraints would include PRIVATE SECTOR REPRESENTATION AT ANNUAL TARIFF CONFERENCES, to ensure that accurate port statistics, and other transportation data (e.g. shipping, trucking and air freight costs) are collected and presented at the meetings; OVERSEAS (U.S.) REPRESENTATION OF CENTRAL AMERICAN EXPORTERS is needed to monitor customs and USDA inspection services and develop better marketing channels and secure promotional assistance; and, the contracting of GROUP FACILITATOR EXPERTISE to help foster communication and prioritize transportation action plans between public and private sector officials in the Central American region.

ROCAP will strive to increase productivity and sales of small and medium size export-oriented businesses through the increased availability of export marketing information, and the provision of technical assistance and training for management and appropriate production technology programs. To achieve this objective, the new direction is intended to improve productivity and sales of small and medium sized export industries by

establishing an EXPORT MARKETING INFORMATION CENTER for access by new and existing export-oriented industries. Such a center might be located at and administered by ICAITI, with INCAE assisting in the provision and dissemination of information. Additionally, INCAE will undertake a MANAGEMENT SKILLS TRAINING PROGRAM for the target industrial group, and ICAITI will carry out a PRODUCTION TECHNOLOGY PROJECT designed to provide appropriate technical assistance and training to targeted small and medium size industries.

ROCAP will provide credit to the public and private sectors through CABEI for export related infrastructure and agribusiness projects, particularly focusing on credit which alleviates transportation constraints in the region, as recommended in the Regional Transportation Study. The proposed subloans would include financing for strategically located container freight and storage areas, which facilitate shipping and strengthen the potential for additional air cargo services, thereby providing incentives and security for the increased production and sale of non-traditional exports.

ROCAP will also continue to provide medium and long term credit through CABEI to the private sector for agribusiness exports, building on mechanisms recently developed under the Regional Economic Recovery project which position CABEI as a second story lender working through national intermediate credit institutions (ICIs). Working with CABEI and the ICIS, ROCAP will endeavor to improve private sector access to credit by: (1) providing technical assistance and training aimed at streamlining loan processing procedures and improving ICI sub-borrower selection and evaluation processes, and (2) continuing to leverage other donor and commercial bank funds for increased access by the private sector to scarce foreign exchange.

ROCAP will also continue to provide investment capital for agribusinesses engaged in exports through LAAD and possibly CABEI. With LAAD, we will provide modest financial support and establish a mechanism to leverage more substantial resources from the bilateral USAIDs through "buy-ins".

As part of the growth strategy, processing opportunities will be studied. Although most important non-traditional agricultural commodities are exported fresh, there appears to be significant potential for expanding the processing of these commodities for export. ROCAP will provide assistance in market assessment information comparing fresh and processed product for export.

Our focus on AGRICULTURAL EXPORTS will include policy improvements intended to increase the capacity of the Ministries of Agriculture to offer policy analysis. Key analyses will include the development of linkages between macroeconomic policy and agricultural investment and production; pricing and marketing of export crops; export regulations and promotion policies; and sector resource allocation to research and technical education. By working through CORECA and INCAL, ROCAP will help implement plans to eliminate both policy constraints common to countries in the region and regional policies.

To meet the need for trained Central Americans, ROCAP support will focus on establishing curricula at graduate levels within regional and, where appropriate, national educational institutions. Additionally, support will be expanded for the training of extensionists, private sector technicians, PVO staffs, and others who reach out to the farm level in key areas of production, handling, and marketing of selected traditional and non-traditional export crops. As illustrations, training would cover short-term professional and

mid-level, non-degree courses in integrated pest management, coffee, cacao and non-traditional export crop production, agribusiness management, post-harvest handling and marketing of export crops, as well as on-farm soil and water conservation and irrigation activities. Degree education is also needed in selected disciplines related to export crop production (such as soil science, tissue culture and genetic improvement). We will provide full or partial scholarships for graduate level (M.S.) study at CATIE and INCAE in specialties related to export crops, and explore means of establishing multi-donor endowments for scholarships.

Technology adaptation is a longer term investment in which ROCAP and its cooperating institutions have contributed much. As with food production, the program will focus on adapting, validating, and preparing for dissemination findings on selected topics, including coffee, cacao and non-traditional export crops. A new networking mechanism will provide for a two-way flow of scientific information between the regional research centers (CATIE and IICA) and national centers. These actions will permit the distribution of high yield, disease resistant varieties and related production and processing technologies through CATIE, ICAITI, FHIA and collaborating national institutions; validation of integrated pest management and irrigation technologies for non-traditional export crops; and the expansion of genetic resource collections of economically important export crops.

The program will carry out feasibility studies, primarily cost benefit analyses, on regional pest eradication programs. A key effort will be to support tests of both traditional and non-traditional exports for pesticide residue contamination. ROCAP will also assist in the development of a plant

health regulatory capability for monitoring disease and insect outbreaks and certifying product acceptability in the U.S. We will study the feasibility of establishing testing laboratories in the region for certifying that the products meet USDA requirements for entry into the U.S.

e. **LAC/CAI Objective 6: Preserve and Manage Natural Resources**

Targets:

- 1) Successful management of 10 priority watersheds in the region in an integrated, inter-institutional fashion by 1993.
- 2) Successful management at least 5 major national parks or reserves in the region, thereby contributing substantially to conservation of tropical forests and biological diversity.
- 3) Improve pesticide management in the region thereby reducing costs of agricultural production, the contamination of food and agricultural export commodities with pesticide residues, environmental contamination, and human health hazards resulting from inappropriate pesticide use.
- 4) Increase the environmental soundness of AID programs and other development activities in the region.

ROCAP's overall strategy for reaching the targets is to heighten the awareness among countries and donors of natural resource/environment matters, to transfer needed technology, and to offer technical support for improved project design.

The methods and program activities will seek to create the policy environment for sustainable development by increasing the capacity of national institutions for policy analysis and reform; training Central Americans in

watershed, wildlands, and pesticide management; adapting and transferring technologies in these fields, and supporting efforts to improve environmental components of development programs.

Policy work will cover such areas as linkages between macroeconomic policy and natural resources and environmental management; incentive programs for forest tree planting and soil and water conservation; land use planning; pesticide and toxic waste management; and sector resource allocation to research and training. ROCAP will promote increased donor coordination and collaboration for improved environmental management through periodic technical and professional meetings. This action would include coordination with both multilateral development banks (MDBs) and USAIDs.

Training will include graduate level (M.S.) study at CATIE in watershed and wildlands management and short-term professional and mid-level, non-degree training for policy makers, researchers, educators, technicians, and extensionists through CATIE, collaborating universities and NGOs. Other training will be short-term professional and mid-level, non-degree courses for a range of professionals and technicians in pesticide use and management through IICA, OIRSA, CATIE and others.

Technology adaptation and transfer will focus on CATIE's applied research on watershed and wildlands management, supporting the development and consolidation of extension materials, and helping countries to design programs for massive dissemination of information and technologies in watershed, wildlands, and pesticide management, including the creation and operation of regionally accessible documentation centers, libraries and data bases.

Special efforts will be made to promote and facilitate on a regional level the actions of conservation NGOs to augment fund-raising and improve the channeling of bilateral AID and other donor resources to national NGOs and other groups for improved watershed and wildlands management. ROCAP will sponsor national and regional meetings with public and private institutions, policy makers, donors and NGO conservation organizations to communicate the findings of the country and regional environmental profiles and promote actions for sustainable development. Information and services will be focused on environmental impact assessment and mitigation capabilities in national public and private sector institutions. The program will support the development of conservation strategies to promote grass roots conservation actions linked with rural/community development, and explore the regional applications of debt sales/swapping mechanisms to support both conservation and economic stabilization objectives, as has been demonstrated in Bolivia.

In addition to the above efforts planned under this objective, various actions programmed under the agricultural production and export promotion objectives also directly support the objective of preserving and managing natural resources. These include: tree crop production, integrated pest management, irrigation development, soil and water conservation, feasibility analysis of pest eradication programs, and pesticide residue monitoring.

2. LAC/CAI Goal No. 3: SPREADING THE BENEFITS OF GROWTH

a. Overview: This is our next highest priority, given the need for actions to sustain and improve life for Central Americans while the growth process improves, and during the lags that will occur before the benefits reach those who are presently under- or unemployed. For ROCAP, the sphere of

action is limited, since the activities that are needed to assure better distribution of benefits must occur in each country, and because few of the solutions can be implemented at the regional level. At the same time, there are information and technical needs that can be more efficiently met on a centralized basis, and common approaches that can be shared through improved regional communication and coordination. We have thus chosen to focus on continued work in maternal/child health and food/nutrition programs aimed at reduction of child mortality, in which we are developing knowledge and have ongoing relationships; and improved housing and community services, where we have obligated funds and authorized guarantees that are expected to generate additional financing to continue into the planning period. As an additional measure, we will be looking at approaches to the broader problem of health system management and administration .

In child survival, where USAIDs and other donors are working, we find that there is a discrete role for ROCAP through its relationship with INCAP to provide (a) improved technology and medical case management methods; (b) solutions to problems of information collection and application; (c) improved education and training curricula, methods and materials; and (d) analyzing and solving logistics and outreach problems. Major donors include PAHD and UNICEF, with many of their member countries channelling their own assistance through these international agencies. Food assistance resources come principally from the UN World Food Program and A.I.D. In spite of the number of donors with frequently parallel programs, we have found several gaps based on a contractor's analysis of constraints/donor activities, requests for ROCAP involvement from other donor agencies and USAIDs, and areas of activity

in which ROCAP is and should continue to be involved. These include expressed needs focusing on children under 5 years of age, pregnant/lactating women, and other high risk populations including low income groups, the displaced, and school children in the following technical content areas: diarrheal disease; acute respiratory infections; undernutrition; perinatal problems; immunizable diseases; malaria, and AIDS. The requests also seek ROCAP/INCAP assistance to strengthen the health/nutrition sector through policy development, planning and coordination that will help to focus and improve the coverage of low risk groups through targeted primary health care, preventive health services and outreach programs. Gaps in training and education are apparent in public health education, health services, management training, health care financing, and community education/mass media. Other unmet needs exist in scientific and technical support for information, monitoring/evaluation, applied and operations research, technical knowledge specific to diseases in the region, and essential drugs/quality control.

Current and planned non-AID donor assistance in housing and urban infrastructure is currently limited to IDB projects in Costa Rica and Guatemala, and some German assistance in El Salvador and Honduras. Multilateral and bilateral donors are providing funds for both construction and technical assistance for the expansion and improved management of water systems in the capital cities of the region. The bulk of these resources, however, will finance increases in overall supply of water, not household connections. Only AID, through its regional (RHUDO/ROCAP) and bilateral initiatives, is addressing policy issues such as cost recovery, market rates of interest and participation of the private sector in the financing and construction of low cost housing and related infrastructure.

b. LAC/CAI Objective No. 10: Reduce Infant and Child Mortality.

Targets (by 1993):

- 1) 40% of cases of acute infant and child diarrhea treated with ORT and proper dietary management.
- 2) 40% of children 0-60 months with growth being monitored in each country of the CA/P region.
- 3) 50% of health service delivery personnel knowledgeable of and using proper case management for diarrheal disease, undernutrition, acute respiratory infections, and prenatal care.
- 4) Public health education focusing on MCH topics incorporated into curricula of 70% of medical schools and health sector training centers and the region.
- 5) Improve targetting of 25% of food and nutrition programs to highest risk population groups or households.

ROCAP's general strategy for meeting the above targets during the next five years will focus on information and policy support, improved technical knowledge and skills, and improvements in logistics and outreach related to child survival/maternal-child health and food nutrition programs.

In child survival, ROCAP together with INCAP, will offer TECHNICAL SUPPORT TO MATERNAL-CHILD HEALTH AND FOOD AND NUTRITION PROGRAMS. INCAP is the internationally-respected regional food and nutrition institute with proven capabilities and current directions which closely match the areas identified above in the gap analysis. At the same time, ROCAP will work with other donors and Central American institutions in the public health field to

find a cost-effective way to develop a SUSTAINABLE SOLUTION to the shortfall in HEALTH MANAGEMENT AND ADMINISTRATION SKILLS AND TRAINING.

The means to be employed in the field of maternal-child health will be to continue support and strengthening of scientific and technical assistance for MCH programs in the public and informal private sector (pharmacies, PVOs) through: (1) monitoring and surveillance; (2) applied and operations research; (3) technical support in biomedical, cultural, and socio-economic factors affecting program planning, program implementation and case management of common diseases; (4) public health education and training, and (5) coordination in policy and program development, planning and implementation.

Closely related to the above will be work in food and nutrition through continued support and strengthening scientific and technical assistance for food and nutrition (public and private) activities such as: (1) continued assistance to and coordination with institutions and donors in policy formation, planning, program development, implementation and evaluation; (2) efforts to determine the nature and extent of household food insecurity, and development of regional surveillance and national consumption/nutrition monitoring mechanisms; (3) applied and operations research and policy analysis, and (4) training in food and nutrition, dissemination of information, and expansion of the technical support network. This last activity involves food needs assessments, monitoring and surveillance, food production disincentive analyses, coordination of food assistance resources, improving program management, and evaluation of the effects of policies and development programs on food and nutritional status and household food security.

The program will also provide additional institutional support for increasing INCAP's service orientation. While maintaining the technical focus of support for MCH and food and nutrition programs, ROCAP will strengthen INCAP's capacity in information systems, monitoring, evaluation and surveillance; policy analysis; operations and applied research; and adaptation of new education and communication methods and techniques. This will be done through long and short-term training, provision of specialized consultants to the Institute, and by facilitating linkages with U.S. universities and institutions of technical excellence. ROCAP will also fund essential technical equipment and assist in exploration of a more diverse and secure financial base.

Work in a specific, widely needed aspect of public health like treatment of diarrheal disease or acute respiratory infections can be carried out to a great extent independently of problems in the formal, government system of health delivery. This is done by living with its present shortcomings, while seeking ways to better channel its resources and personnel toward the key problems. It is also done by working through alternative channels, such as PVOs, church networks, pharmacies, and village health practitioners such as midwives.

However there are limits to what can be accomplished by these methods, and it is clear that other efforts are needed to overcome the fact that most health professionals in administrative positions lack training or previous experience in management or administration. The bilateral missions have projects in public health that seek to improve the systems' management and administration. However, training in this area is provided on a short-term,

project-specific basis and will not provide the region with a long-term, institutionalized capacity for training in health sector management or administration. Currently there is no regional or national institution capable of providing such training, nor is there a common strategy to address the problem on a sustained basis. ROCAP, therefore, proposes to explore alternatives to meeting health sector management needs and to design a long-term solution.

c. LAC/CAI Objective No. 11: Improve Housing

Targets (by 1993):

- 1) Provide 10,000 low cost shelter solutions.
- 2) Provide community improvements (water, sewer) to 145,000 families.

The ROCAP strategy to reach these targets is to work simultaneously on policies related to housing and urban services, improved management of those services, and on increasing the amount of capital needed for bringing about solutions to the increasing problems of shelter in the cities of Central America.

The principal means is the already authorized Central American Shelter and Urban Development Project, which will be implemented during the planning period, and will end in 1992-93. The project combines technical assistance and training with loan and housing guarantee resources aimed at an integrated program of policy reform, management skills development, and actual construction of housing, water, and sewage facilities. Once this project terminates, ROCAP will cease to be involved in this sector, as we expect USAIDs and other donors will be positioned to provide further assistance.

3. LAC/CAI Goal No. 4: STRENGTHEN DEMOCRATIC INSTITUTIONS.

a. LAC/CAI Objective No. 13: Increase Participant Training

Target: To provide training under CAPs to 900 Central Americans (540 men and 360 women) in agricultural education, extension, public administration and tourism promotion.

The focus of the CAPS training program for the 1989-1993 period will be on increased agricultural production, improved public administration and tourism development. In the agricultural sector, both agricultural educators and agricultural extension workers will be trained. The public administration participants will be auditors, customs inspectors and middle managers in appropriate sectors (trade and commerce, environment and regional development). Tourism participants will be government tourism officials and private sector tourist association leaders, small and medium size hotel managers and tour operators. Training will be arranged at U.S. tourism promotion organizations, hotel management schools and travel industry training institutions.

The ROCAP CAPS program will continue to use Central American regional institutions to conduct training in areas that promote scholarship diplomacy and development. These institutions, (e.g. INCAP, INCAE, Zamorano), because of their many years of work in Central America, are especially knowledgeable of training needs, resources, key personnel and other important factors of development. This experience will be especially valuable in working with ROCAP in training design and candidate selection. Further, the regional institutions' well established presence in Central America will serve as a continuing network for CAPS follow-up activities that strengthen the Central

American information and support network. After participation in the CAPS program, scholarship recipients return to their respective countries having shared and compared experiences with a new set of friends from throughout the region. This mutual learning through CAPS forms strong linkages among the scholars that lead to information exchange, joint ventures and other positive relationships and interactions. For example, the 50 public auditors (10 per country) that participated in a 1987 CAPS program have begun activities to establish a regional public auditors association. This same kind of regional concern and involvement will be encouraged with other training groups.

b. Objective No. 14: Strengthen Democratic Institutions

Target: Support the Central American Parliament's organization and focus.

The Central American Parliament is quickly moving to become a reality. With the treaty establishing the Parliament now signed, the next major step will be the holding of elections in each country to select the representatives. With AID's experience in assisting the national election process, the Agency has established its credibility in this field and built relationships with regional organizations (CAPEL and the association of electoral tribunals). ROCAP proposes to aid the Central American Parliament in its formation phase with the same types of assistance which have been proven in national elections. We would help CABEI and the association become involved in the elections. We would offer help with commodities (security paper for ballots, indelible ink, computer system software) and with support for international observer Missions. ROCAP would coordinate this assistance closely with AID/W and bilateral USAIDs, recognizing that similar support has

been provided for national efforts. Once the Parliament is organized, our focus would turn to helping Central Americans ensure that the organization quickly establishes itself as useful and relevant to Central American concerns. The legislators and the staff will be inexperienced in democratic processes and parliamentary procedures. At this crucial juncture, both will need training and technical assistance. There will especially be a need for technical expertise to be available to the legislators, the type of expertise provided by the committee staffs of the U.S. Congress and the EEC Parliament. ROCAP will seek to provide assistance in these areas through existing regional organizations (e.g., SIECA in economic analysis, INCAE in organizational development) and through regional training programs and international observation tours to the U.S. and European legislature. To assure relevance of the Parliament's efforts to the needs of the countries, ROCAP will fund regional and international experts to help define how to implement the initial agenda for action. Examples of important topics are reorientation of the CAQM and related trade and tariff issues, common agriculture policy, realignment of exchange rates, and security concerns. One topic which might produce an early success would be for the Parliament to assume the role of providing policy guidance to, and defining the agendas for, the existing regional treaty organizations (e.g., CATIE, INCAP, CABEI).

Once ROCAP has demonstrated its ability to assist with the elections and training/technical assistance needs of the Central American Parliament, it would be natural for us to propose similar assistance with a regional orientation to national bodies.

There are obvious benefits to augmenting bilateral efforts in election assistance and training of national legislators and others with some well selected regional programs. Assistance in some fields may be politically sensitive and, thus, better addressed regionally. Virtually all fields can benefit from the cross fertilization and networking that are inherent in regional rather than bilateral training programs.

By bringing together through the CAPS program for training groups of legislators, election officials, municipal officials and others from the different countries, we provide the opportunity for cross-country sharing of experiences. This will not only add to the value of the training, but also let each participant see that he/she is not facing the challenge alone. We will help foster regional networks of the participants in a given field and sponsor periodic follow-up regional workshops and seminars on problems recognized by the Central Americans as appropriate issues for common approaches.

IV RESOURCES

A. Other Donors

ROCAP has regularly collected data and information on other donor activities in the fields related to our program. Because this relates to six countries and eleven regional institutions and covers the various development sectors and subsectors, the volume of information is overwhelming. It would take virtually the full length of a RDSS to present a complete picture of donor assistance in Central America. Thus, ROCAP has not attempted to list every donor and the value of its assistance. Instead, we have woven into appropriate sections of our RDSS reference to other donor assistance which is relevant to our strategy.

B. U.S. Resources

1. Financial Resources: For the strategy presented in this RDSS, the financial resources have been defined for ROCAP by LAC in State 200944. This limited our planning to an annual funding level of \$25 million in Development Assistance and \$5 million in Economic Support Funds. These resources will be allocated over the five year period to achieve ROCAP objectives as shown below:

Goal 2 RAPID AND SUSTAINED GROWTH

			(US\$ Million)	
			DA	ESF
<u>Objective</u>	15	Regional Economic Policy	5	0
	1	Agricultural Production	42	8
	2	Export Promotion	35	6
	6	Natural Resources	20	0
	Sub-Total		102	14

Goal 3 SPREADING THE BENEFITS

	<u>DA</u>	<u>ESF</u>
<u>Objective</u> 10 Child Survival	16	0
11 Housing	0	8
Sub-Total	<u>16</u>	<u>8</u>

Goal 4 DEMOCRATIC INSTITUTIONS

	<u>DA</u>	<u>ESF</u>
<u>Objective</u> 13 Participant Training	7	0
14 Dem. initiatives	0	3
Sub-Total	<u>7</u>	<u>3</u>
TOTAL	<u>125</u>	<u>25</u>

As discussed in the RDSS, our highest priority activities will be those associated with LAC Goal No. 2--Basic Structural Reforms Leading to Rapid and Sustained Growth. The priority among the objectives is reflected in the order in which they are discussed in the strategy section of the document, i.e. Regional Economic and Trade Policy development, Agricultural Production, Export Promotion and Natural Resources. Our second priority incorporates LAC Goal No. 3--Wider Sharing of the Benefits of Growth, with our child survival activities considered higher priority than housing, although we will need to complete funding our ongoing shelter project. ROCAP's third priority for funding covers LAC Goal No. 4--Strengthening Democratic Institutions, where we believe continuing our CAPS activities and initiating efforts in democratic initiatives are important areas in which ROCAP can make a unique contribution.

C. Staffing Levels:

ROCAP has been given guidance on staffing levels. Thus, we propose to implement our strategy at the beginning of the planning period with 11 USDH and 6 FNDH. Our present direct hire staffing alignment and organization are considered appropriate to the strategy. However, any reduction would require revision of our strategy, as we are at the limit of effective program

management with the prescribed levels. One potential change in our USDH level concerns the current PSC Regional Environmental Management advisor. We understand that LAC is considering establishing a direct hire position in this technical field for Central America. If this is approved, the person should be attached to ROCAP, and this would require an increase of our present ceiling.

We expect to begin the planning period with 11 contract personnel complementing direct hire staff in program administration. Over the period, we would plan to alter the makeup of the contractors and add three new positions. These changes would have contract employees shifting out of energy activities and giving more emphasis to our agricultural production, export promotion and policy development objectives.

ANNEX 1

PROPOSED APPLICATION OF INCREASED RESOURCES

In response to interest expressed by the AA/LAC and others in the Bureau, we have considered how ROCAP could most effectively apply additional resources. We see the possibility that such additional funds, possibly on the scale of \$20 million additional per year during the planning period, might be available under the following circumstances: (1) the pace of economic reactivation and regional cooperation by Central Americans continues to accelerate; and (2) a modest "peace dividend" is provided by the U.S. Congress to bolster all A.I.D. programs in the region following significant compliance with peace and human rights agreements.

From our perspective, the Central American Region is facing a new set of opportunities for an era of growth and social development. These opportunities require a more active, organized response that will mobilize the capital (both regional and foreign), human resources, and natural resources that are available. Much also remains to be done in the arenas of economic policy reform, capital investment and institutional change in order to take advantage of trade and investment opportunities, to respond to the strong interest in the U.S. Congress in Central American matters, and the interest in Europe and Asia in the region as an area for development assistance and future investment.

Central Americans are working to correct the limitations of the past, beginning with resolution of the sociopolitical conflict, while also increasing mutual understanding between the private and public sectors of the

economic and environmental problems and opportunities facing the region. This is leading to a new appreciation of the interdependence between the economies of the countries of the region, and the economies of scale that result from cooperative, regional response to the opportunities.

We see many important contributions ROCAP could make if more resources were available. We have not developed these ideas as fully as those presented for the basic resource level. This summary describes the broad areas where we would either expand activities in existing fields to accelerate their impact, or add new objectives that are beyond our capacity at the presently established planning level.

Briefly, ROCAP would devote additional resources to two existing areas of notable achievement, agricultural production (for both improved food supplies and for exports) and natural resources/environmental management, and add a new objective to expand and improve the infrastructure, particularly that which supports trade expansion.

The agricultural technology networking that we have initiated for cacao and other crops can be expanded to include export crops such as bananas, tree and spice crops, winter vegetables, and melons, and traditional food crops such as corn, rice, and beans. Once the networks among regional and national research centers are established, and linked to international technology centers, not only additional crops but supporting technologies (such as irrigation/drainage, pest management, and soil/water conservation) can be introduced and worked on. ROCAP and its collaborating institutions would also direct additional funds at dissemination of technology through an expanded

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communications program of publications, use of electronic media, and possibly programs aimed at schools in rural areas. Work with the extensive network of PVOs in the region would also be expanded.

With increased resources for natural resources and the environment, ROCAP would expand its activities in a number of directions. The work in pesticide management would be extended to toxic wastes. Watershed management would be strengthened in the area of irrigation, and assistance would be provided for the study and planning of such international watersheds as the Rio Lempa (Guatemala-El Salvador), Trifinio (El Salvador-Honduras-Guatemala) and La Amistad binational park (Costa Rica-Panama). Work in wildlands/biological diversity would be extended to additional areas and coastal zone management would be added as a new category of emphasis. A special effort would be made to support NGOs working in environmental management. Studies leading to the identification of appropriate AID interventions in other problems of environmental contamination would be undertaken. ROCAP's services to USAIDs in the area of project design, environmental assessment, and training would also be expanded.

There are a number of highly cost-effective infrastructure (chiefly transportation) investments that ROCAP could support to expand exports. These include improving container facilities and other equipment at sea ports; increasing the stock of refrigerated warehouses; improving freight facilities at airports; and rehabilitating heavily used trunk and secondary highways. This assistance would be directed to facilities which serve the region as opposed to strictly national facilities. ROCAP could also provide an ongoing service in identifying and designing solutions to transportation obstacles to development.

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A broad area that is difficult to define at this time includes the various actions appropriate for ROCAP support that might emerge from the Regional Economic and Trade Policy Development activities of our proposed basic program. These might include work in the area of improving capital markets (e.g. establishing a securities exchange or merchant bank), or advisory services related to regulatory reform, debt-equity conversions or privatization of public enterprises.

The resources required to carry out this enhanced program would involve the following funds:

	<u>\$Million per annum</u>
Agricultural Production/Exports	3
Natural Resources/Environment	5
Infrastructure	10
Support Trade/Investment	<u>2</u>
	20

In order to carry out the full program, we see a need for two additional USDH staff in agriculture and engineering, and we assume a regional environmental specialist would be provided. We would also require additional U.S. contract personnel in agriculture extension, environment/natural resources and capital market development.


The ROCAP Service Function

In addition to identifying important additional funding requirements, ROCAP sees new opportunities to provide needed services to bilateral USAIDs. ROCAP has consistently provided professional staff and services to Missions in the region in natural resource and environmental management, forestry and

conservation, pest management, commodity procurement and to a lesser extent technical assistance in food aid programs, nutrition and child health care. By maintaining three long-term contract professionals in the San José agricultural office, ROCAP has been able to respond quickly to the needs of Missions and participate actively in planning and design sessions, project implementation and evaluation activities. In addition, in the private sector the Non-traditional Agricultural Export Support Project has provided short-term technical assistance to USAID-funded projects and national level entrepreneurial groups throughout the region, focusing on primary constraint areas to increasing non-traditional exports.

ROCAP studies in transportation systems and capital markets development have fostered a series of national level workshops and seminars on these topics. The results of these sessions have directly benefited USAIDs and their host country clientele in terms of analyzing common problems and arriving at prioritized action plans to be carried out under USAID projects and through private sector follow-up activities.

ROCAP is capable of taking on a greater role in the provision of technical services to USAIDs in the Central American region. As demonstrated to date, there are common needs for information gathering, policy analysis, assessment of alternative country and regional development strategies and interventions, skills training, and rapid and reliable access to high quality, up-to-date technical assistance on development problems. These and other issues were identified by USAIDs in the region as having the highest priority in complementing their national level objectives and programs.



For example, technical consultants and long-term advisors could augment ROCAP's staff and manage and/or assist in economic policy analysis; agricultural policy analysis as affecting agricultural production and income in such areas as investment allocation and agricultural taxation, commercial land market constraints and food security issues; and in the private sector where long-term professional expertise in investment banking, small business industrial development, free zone and privatization programs is much in demand.

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